MELVILLE SHOE CORPORATION ▪ ANNUAL REPORT 1965

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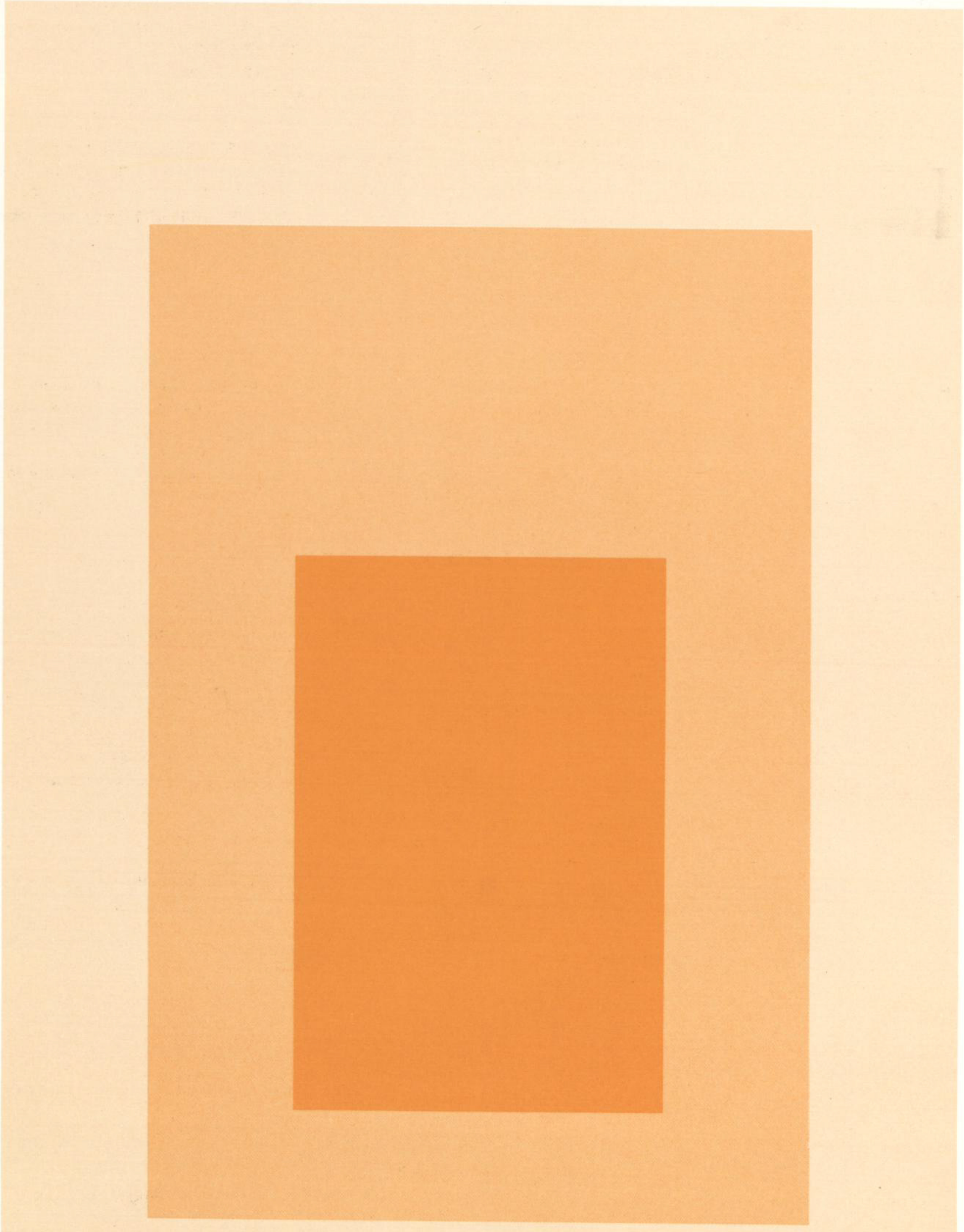
CORPORATION FILE



MELVILLE SHOE CORPORATION

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ROBERT C. KUHN
LAWRENCE E. McGOURTY
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HAROLD CHRISTIANSON, *Assistant Secretary*
BERTHA K. SMITH, *Assistant Secretary*
HAROLD R. WICKHAM, *Assistant Secretary*

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Lawrence E. McGourty, *Vice President and General Manager*

Vice Presidents

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James F. Barry
Edward Gorman
Richard S. Magee
Richard H. McCarthey
William H. Muckley
J. Richard Nedder
John F. Riefler, Jr.
J. Frederick Rossell
William J. Smith

Kenneth K. Berland, *Treasurer*
Harold Christianson, *Controller*
Harold R. Wickham, *Secretary*

Miles Shoes

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Samuel H. Rosenberg, *First Vice President*
Arthur B. Gold, *Vice President and General Manager, Miles*
Robert C. Kuhn, *Vice President and General Manager, Meldisco*

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Vice Presidents

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Donald W. Erion
James C. Mackay
Seward M. Paterson
Frederic E. Shaw

Richard O. Wasson, *Assistant Controller*

Blue Ridge Shoe Company

Francis H. Gleason, *President*
Richard E. West, *Executive Vice President*
John R. DeWitt, *Vice President and General Manager*
A. Byron Mansfield, *Secretary and Treasurer*

Melville Realty Company, Inc.

A. C. Blunt, 3rd, *President*

Vice Presidents

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Francis H. Gleason
Richard S. Magee
Spencer D. Oettinger

Harold Christianson, *Treasurer and Assistant Secretary*
John J. Rademaker, *Assistant Treasurer*

Assistant Secretaries
Nat Antler
John J. Rademaker
Bertha K. Smith
Harold R. Wickham

Counsel:
Davis Polk Wardwell Sunderland & Kiendl

Auditors:
Peat, Marwick, Mitchell & Co.

Transfer Agent:
Irving Trust Company, 1 Wall Street,
New York, N. Y. 10015

Registrar:
First National City Bank, 55 Wall Street,
New York, N. Y. 10015

Annual meeting of stockholders
will be held at the Executive Offices
in New York City
on April 12, 1966.

L. to r.: Spencer D. Oettinger, executive vice president; Murray M. Rosenberg, chairman of the Executive Committee; Francis C. Rooney, Jr., president; and Ward Melville, chairman of the Board.

TO THE SHAREHOLDERS:

Profits and sales of Melville Shoe Corporation and its subsidiaries reached an all-time high in 1965. Consolidated earnings were $8,418,237, or $2.84 a share, compared with $7,110,962 or $2.35 a share in 1964, an increase of 18.4%. Sales of $203,545,124 increased 4.3% from $195,170,712. Sales at retail were $196,186,285, an increase of 5.2%.

In January, the Board of Directors increased the quarterly dividend rate to 31¼ cents a common share from 25 cents, reflecting its confidence in the earnings potential of the company and its subsidiaries.

There were 1275 stores and departments in operation at the close of 1965 as compared with 1250 a year ago. During the year, 72 new units were opened and 47 were closed. Approximately 100 new units are planned for 1966.

HIGHLIGHTS

	1965	1964	*Percent Change*
Net Sales	$203,545,124	$195,170,712	+ 4.3
Net Earnings	8,418,237	7,110,962	+18.4
Dividends on Common Stock	2,790,456	2,232,365	+25.0
Net Earnings Per Share of Common Stock	2.84	2.35	+20.9
Dividends Per Share of Common Stock	1.00	.80	+25.0
Net Earnings as a Percent of Net Sales	4.14%	3.64%	
Cash	18,629,970	19,604,090	− 5.0
Inventories	39,094,013	36,204,725	+ 8.0
Net Working Capital	42,850,972	41,428,506	+ 3.4
Shareholders' Equity	45,850,731	42,367,638	+ 8.2
Number of Stores	1,275	1,250	+ 2.0
Number of Employees	8,400	8,200	
Number of Shareholders: approximately 25,000			

Two new factories were opened during 1965: one in Mountain City, Tennessee, and the other in Sparta, North Carolina. A new general office and warehouse was opened in Worcester, Massachusetts, permitting a desirable consolidation of Thom McAn warehousing functions.

As we plan for vigorous new expansion, increasing emphasis is being placed on management development. In January of this year, general managers were appointed for four of the divisions of the company. The Corporation is fortunate in the valuable experience brought to the Board by the election of three new Directors in April, 1965: Robert McDonald, executive vice president of Beech-Nut Life Savers; Frank Melville III, president of the History Book Club; and Michael M. Rosenberg, chairman of Auerbach, Pollak and Richardson, member firm of the New York Stock Exchange.

We record with deep sorrow the sudden death on January 6, 1966 of Joel Ellis Fisher, who had served as a member of the Board of Directors since 1935, and as Secretary of the Corporation from 1929 to 1957.

Our business this year is proceeding at a high level, with sales ahead of this time a year ago. We expect that the general economy will continue to provide a firm base for retailing, and that 1966 will be another good year.

Ward Melville — Francis C. Rooney Jr.

CHAIRMAN OF THE BOARD — PRESIDENT

March 17, 1966

Frank Melville III

Robert McDonald

Michael M. Rosenberg

Leaders of Melville's young management team meet as the Operating Committee in the corporation Board Room. Clockwise around the table are Arthur B. Gold, general manager of the Miles Shoes division; Robert C. Kuhn, general manager of the Meldisco division; Richard E. West, general manager of the J. F. McElwain Company division; vice president Francis H. Gleason; president Rooney; executive vice president Oettinger; Lawrence E. McGourty, general manager of the Thom McAn division; and Kenneth K. Berland, treasurer. Mssrs. Gold, Kuhn, West, McGourty and Berland were elected vice presidents by the Board of Directors in January, 1966.

MANAGING THE FUTURE

The constant in the business environment today is change. The rate of change grows. The company that merely concerns itself with doing today what it did successfully yesterday is already confounded by tomorrow.

Planning for change is an essential function of management. In Melville, it is a major preoccupation of the executive staff.

One dimension of change of obvious and immediate importance to Melville planning is population: just to pace the speed with which America is adding Americans, and creating new communities to house them, requires a large expansion of our facilities.

By 1970—a good median date for the many separate time spans involved in operational planning—there will be 209 million people in the United States, a gain of 7.7 percent over 1965. The increase will be more than 11 percent in the metropolitan areas served by Melville and its subsidiaries. By 1970, gross national product is expected to increase on the order of one third, to nearly $900 billion, and consumer expenditures at almost the same rate.

Growth during these next five years has special aspects for Melville. For example, the rate of population change along the West Coast will be more than double that of the New England or Middle Atlantic regions. Rates of growth by region and by metropolitan area have been carefully considered in allocating and timing the 500 new retail outlets to be opened by Melville and its subsidiaries in the next five years.

Another vital aspect is the change in age groups. There will be a gain of 25 percent in the 20-24 year age range by 1970, approximately 12 percent in the groups from 15-19 and 25-34—far larger than the gains in any other age bracket. This is most significant for the young family orientation of the three retail chains operated by Melville.

A second dimension of change is the kinds of people, the kinds of families your company will serve in 1970 and beyond. What will be the effects on Melville marketing of constantly higher levels of education, wider travel at home and abroad, more leisure, greater discretionary spending, a new concern with cultural activities of every kind?

COLUMBIA CEN
FIRST VILLAGE

Central to Melville growth planning is sharp expansion of retail operations; this began during the second half of 1965. Scheduled opening of one hundred new units a year through 1970 will increase the 1275 stores now operated by Melville and its subsidiaries by 40%. Men in charge of the aggressive search for profitable new locations are Richard S. Magee (gesturing) and Nat Antler on his right, vice presidents of the Thom McAn and Miles divisions respectively, and A. C. Blunt 3rd, left, president of Melville Realty Company, Inc. In Baltimore with Willard G. Rouse, executive vice president of Community Research and Development, Inc., they examine a model of Columbia, an entire new city that firm will build between Washington and Baltimore. It will provide homes, stores, employment sites and all other services for 110,000 people by 1980.

The third dimension of change for Melville is greater penetration of this bigger market: The careful application of Melville's three retail chains. The all-important placement of stores and departments where the people will be. More effective and productive personnel performance—on the customer's terms and ours. Distinctive new merchandise that meets the desires and expanding tastes of customers who want to live better and enjoy themselves more. Promotion that cuts through the clutter to reach minds and emotions more clearly, that establishes two-way bonds of liking and caring.

These are the planning areas of Melville management. These are the concerns of Melville's management people day by day on the job.

Controller Ken Berland, checking computerized operating analyses with Frank Rooney, was appointed treasurer by the Board of Directors in April, 1965.

Thom McAn

Two aspects of the rapid growth of the Thom McAn chain—better than a store a week for the next five years—engage this group: putting the stores where the new young suburban families are going to be; and designing the kind of stores they'll find exciting and pleasurable. General manager Larry McGourty chairs the meeting with vice president and sales manager Roy S. Fogas on his right; the speaker is construction director Ferdinand P. Haggerty. Vice presidents John F. Riefler, Jr., left, and Richard H. McCarthey are regional sales managers.

Ford City in Chicago, 82-store center with a million square feet of retail space, 900,000 people within five minutes' drive, and an enclosed landscaped mall, typifies the giant regional centers where most new Thom McAn units are opening.

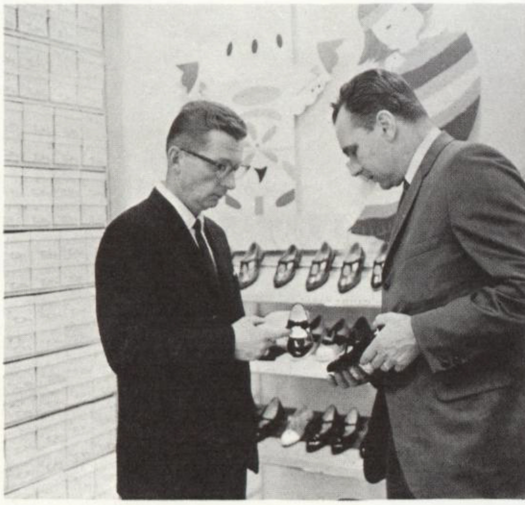
ORTH'S
Thom McAn
Thom McAn
Allen's
CUT-RATE
ENTRANCE

The Thom McAn chain retains a stake and lively interest in downtown retailing, particularly where downtown invests wisely in its future. Westminster Street in Providence, R. I., was another hard-pressed retail hub; since conversion to a permanent mall, retail volume has improved dramatically.

Superior service and superior selling are Thom McAn's route to maximum store volume. Training and motivation are approached increasingly through structured courses conducted by district sales managers for small groups of men, with participation paced by prepared sound-filmstrips. Vice president J. Frederick Rossell (right) and personnel director Donald D. Kane, center, review a storyboard of a new course with an outside audio-visual specialist.

Expansion of the sales force has already begun in order to provide the many competent new store managers and experienced assistants needed in the next five years. Trainees, like the young man at left, are selected by managers with the help of aptitude tests and detailed hiring procedures. Direct contact with schools and colleges to secure qualified applicants is more and more frequent.

The relationship between customer and salesperson is critical—and fragile. At a store in Pittsburgh, a district manager shows a new employee of the subsidiary how to apply Thom McAn Standards of Professional Selling as he "waits on" the cashier. More supervisory time was devoted to training in 1965; still more will be so invested in the future.



Henry S. Mahler, Jr., right, buyer of girls' shoes, spends much time in the field gaining first-hand knowledge of customer wants, fitting qualities, style trends. Today's young mother looks for more style and quality for her child—but proper fit is her first requirement. Thom McAn's exclusive and guaranteed Five Way Fit has met such positive response that boys' and girls' styles are now called Thom McAn Five Way Fit Shoes. Quality—and the quality of care—will continue to build juvenile volume.

Fascination marks the faces of store managers visiting a McElwain division factory. The trip was part of a meeting of the Thom McAn Managers Advisory Council. In 1965 a record 122 managers qualified for this elite group through superior job performance. There is special communication with members throughout the year: their advisory role is a real one. The mounting quality of store staffs increases the value of this type of recognition to men and management alike.

Jack Chilson, left, appointed merchandise manager of men's and boys' footwear in February, 1966, consults with his successor as men's shoe buyer, Norman Mehringer. Style innovation, quality, indulgence, pleasure—these are now key words. Sales of premium-grade Bootmasters at $16 and $17 rose markedly in 1965; significantly, Bootmasters alone will be promoted to men before Easter, 1966, in Thom McAn's intensive spot television campaign in major markets. A permanent buying office was opened in Madrid in August to import distinctive luxury shoes from Spain. Men's shoe prices will maintain the brand's unmatched value and powerful competitive advantage. But today's customer has made clear his new image of himself; he'll find Thom McAn right in the middle of his aspirations.

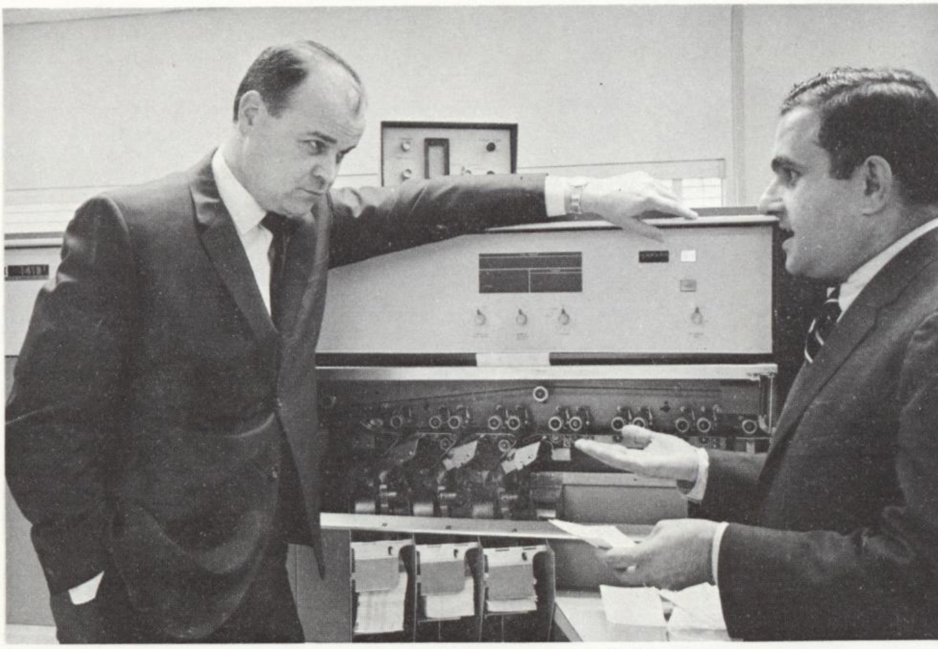
Major logistical advance in 1965 was the opening of a new warehouse and office in Worcester, Mass. Building plans being shown by J. Richard Nedder, vice president for administrative services, to general manager McGourty allocate seven acres of floor space to buying and merchandise distribution offices, accounting and systems departments, and warehousing. Weekly shipments totaling hundreds of thousands of pairs of shoes and hosiery are made to 828 stores operated by the Thom McAn division and subsidiaries from Puerto Rico to Hawaii.

Window presentation of his merchandise is important to boys' shoe buyer Richard Doyle—as it is to every buyer. Teen and adult styling scaled down to boys' sizes has long been featured—but now the luxury and quality must be duplicated: nylon-covered foam linings from Thom McAn's Upholstered Shoe, for example, or Skipper yachting sneakers.

Planned Thom McAn growth assigns an important role to the dealer division, through which Thom McAn men's shoes are made available to independent shoe, men's wear and department stores, reaching men the chain could not serve otherwise. Dealer accounts doubled in 1965 and the field staff was enlarged; highly selective expansion continues in 1966, with a backlog of applications. Dealer division head Jack Shore talks styling with Larry McGourty; the availability of full Thom McAn retail services is a powerful advantage for the dealers—and the division.

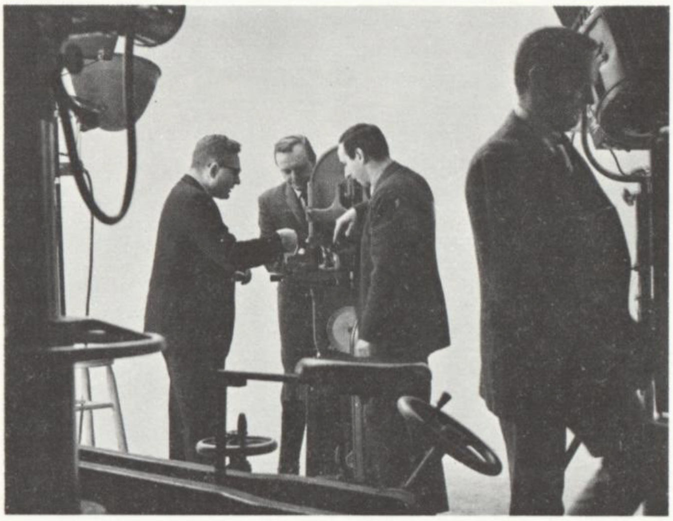
Vice president William H. Muckley, left, is merchandise manager for women's and girls' footwear. During a presentation of Spring 1966 styles to the chain's 46 district sales managers, Bill checks reactions with casual and flats buyer James Royce. Shoes in this category are literally a way of life for the young suburbanite; the samples reflect her keen fashion sense and increasing concern with quality, and Thom McAn's special ability to meet her on her own terms. Jim also develops the unique teen styles which, to the penetrating tune of artful radio jingles, make Thom McAn stores teenage headquarters.

Dress shoes are important to the suburban woman, but again she interprets fashion in her own way. Buyer Jack Feldman, left, speaks her language—to a district sales manager and distribution coordinator James H. Thompson, center. The grading up in taste and quality standards is just as strong here as on the men's side, and Thom McAn's response just as sure-footed.



Successful application during the year of a sophisticated electronic data processing system depended on the little slips of paper and the optical scanner between Dick Nedder, right, and Robert Gray, director of systems and EDP. The slips are sales checks mailed in nightly by each store—over 30 million a year—containing all needed size, width, style, price and store information. Major benefits already realized include faster replacement of store stock; more accurate size and width distribution to each store; faster, fuller merchandising guidance for stores, supervisors, buyers and distributors; elimination of substantial store paperwork. In short, more business on less inventory.

Thom McAn advertising themes and techniques are aimed at specific and sharply-defined customer groups. Typical is promotion to the teenage market, the chain's happy preserve for a dozen years: an exciting shoe and an exciting idea are interwoven in exciting teen music, played at saturation level on top teen stations. In the offices of Doyle Dane Bernbach, the chain's advertising agency, sales promotion vice president Edward Gorman describes the newest girl's promotion shoe to the account team and composer Mitch Leigh.



How do you tell a man about a Bootmaster, and what's in it for him? You talk to him on television, and you look inside the shoe. In one 60-second commercial a Bootmaster is actually sawed in half to show the Floataire air-cells built into the sole. Helping the actor during taping are advertising manager Edward Chasins (left) and agency creative supervisor Alan Buitekant. A key objective of forward planning is retaining advertising distinctiveness—for example to teenagers, everybody's favorite discovery in 1965.

As customers care less about price they care more about store "personality." Ed Gorman and Joseph D'Ambrosi, in charge of women's display, achieve fresh and colorful windows that are easy and fun to shop, that make sense to the young suburban woman, that compliment her taste. Windows that tell her this is the kind of store she likes to think of herself shopping in. So she does.

Pontiac's shrewd interest in teenagers and Thom McAn's expertise in communicating with them brought car and shoe together in a nationwide pre-Christmas promotion. Pontiac's GTO, top performer on the strips and "in" car for the youngsters, went on display at many Thom McAn locations; Thom McAn's GTO, America's first driving shoe, went in the stores; and a powerful GTO jingle went on the air. Hundreds of thousands of entry blanks later, the chain gave away 20 specially built GTO's equipped with every hot stock option—like tri-carbs, mag wheels, Hurst shift. There's more of this ahead for Thom McAn.

Special styles important to a particular region—or even a particular city—often call for special window treatment. Vice president James F. Barry, left, the third regional sales manager, talks over a sandal presentation with display director Guido Cignoli. The aim always is to operate as close as possible to the customer and the market.

Miles

Miles shoes
DRUGS
CROWN
WARM LINED

Big shopping centers near big cities are magnets for the kind of fashion oriented, high-style traffic that has long been the specialty of Miles Shoes division and its subsidiaries. From teenagers up, women find the new and exciting footwear here that otherwise they'd seek downtown. Walt Whitman, closed-mall center in Huntington, Long Island, typifies the growth outside center-cities of Miles subsidiaries; to general manager Arthur B. Gold (left) and regional director Frank Silva, such locations are new but familiar Main Streets. During 1965 the Miles chain developed a store vehicle specializing in women's and children's high-fashion footwear that can serve this sort of sophisticated market anywhere in the country. This adds important flexibility to Melville growth planning.

Miles
SHOES
SPOR

Women who take fashion seriously and want the widest assortment to choose from know that Miles is for them—and for their daughters. Miles grew and thrives on the fast styling, relentless competition and fickle traffic of "Shoe Row", like this one on 34 Street opposite R. H. Macy in New York. Keeping Miles located right, looking right, merchandised right and growing—downtown and in suburbia—takes Arthur Gold to countless curbside conferences with store and district managers. Home base is the Miles building in New York, housing headquarters and warehouse for the 295 stores operated by Miles and its subsidiaries.

Retailing high fashion at popular prices takes a sixth sense: knowing what most women will find desirable in each new look before they know it themselves. It's true in footwear, but here you must also look beyond the shoes to the costumes they complete. These able practitioners of the art are Elliot Lubin, merchandise manager, left; dress shoe buyer Ivan Pokorny, center; and Norman Resnick, senior merchandiser. At issue is a shoe fabric; at stake are thousands of sales. For the future: high-fashion merchandise to more stores, and more styles in all stores.

Who gets the message from the children's area of the window? Mom, of course—but the children, too. Today youngsters have a startling awareness of styling and fashion. That's why the Miles chain presents "fashions for little people with big ideas." Buyer Fred Bodner and senior merchandiser Saul Pollack (center) get counsel from Elliot Lubin as they merchandise the window; stronger fashion emphasis is the continuing trend.

Styling for teenagers is special and exciting. Today's young ladies are informed, particular, influential. Skillful buyers "keep their cool"—and an incisive window presentation. Miles window trims in 1965 defined teen merchandise areas more sharply; new display treatments are in process. Casuals buyer Jerry Mendelsohn and Robert Cook, sports shoe and sneaker buyer, plan their 1966 pre-Easter promotion with senior merchandiser Morton Koff.

During 1965 new window display modules for the "teener" window were installed in all Miles stores, along with new display units in the dress shoe window. Among desired results were stronger impact for teen merchandise, a more feminine image and a stronger projection of fashion and quality. Display manager Mike Emhoff, with assistant Howard Marcus, demonstrates flexibility of the new front feature unit in the dress window to advertising and promotion manager Alvin Grauer, Arthur Gold and Elliot Lubin.

Miles' sure route to the teen girl's attention is her kind of music on her kind of radio station—compelling jingles scheduled heavily at peak buying seasons. But her mother reads the papers. Miles and its subsidiaries are consistent and large-scale newspaper advertisers—in the big metropolitan dailies and the smaller community papers from which suburban women plan their shopping runs. Alvin Grauer presents a new ad format to be used in the 1966 campaigns: a highly sophisticated, fashion-first approach.

Miles is applying new techniques to increase training speed and effectiveness, and raise standards of service and individual productivity. Personnel director Jerry Fried, standing at left, puts salesmen through a dry run on one of several programmed instruction courses being developed with help of outside training consultants.

Customers with more money to spend and many exciting new ways to spend it put a premium on skillful, enthusiastic salespeople. Store management and supervision must be more expert and productive. For Miles, one approach is "EIMP": early identification of management potential. Initial screening is by store-administered aptitude tests; promising candidates move on to this professional vocational and psychological testing.

An IBM 360 will soon replace the 1460 now used by Miles for electronic processing of sales information. Data input is by means of tapes prepared by special cash registers now in each store; essential information is recorded as the sale is rung. Faster sales analysis has resulted in better turnover and inventory reduction, for the individual store and the entire chain. Controller Steven Becker and data processing manager Irwin Brendler, seated, check a print-out with systems manager Harry Birnbaum, left.

Meldisco

SPRING
PREVIEW

Out of yesterday's converted car-barn discount store has grown today's well-located, well-designed and attractive promotional department store—and that's where 151 Meldisco subsidiaries present exceptional footwear values to the public. This is a long way from plain pipe racks. The Empire chairs, carpeting, attractive self-service units and bright lighting are the forward look.

BOYS
SHOES
TEXAS
STEER
GUARANTEED
WORK SHOES

Signing is all-important: overhead, to establish department location within the store; on the merchandise, to aid selection and stimulate sales. General manager Robert C. Kuhn and director of operations Jack Entel give it their personal attention in the field and at the office. Attractive signing conveying a warmer, up-graded "personality" for the department is the objective.

At Meldisco headquarters in the Miles building, a manufacturer shows his line to women's shoe buyer Lawrence Cohen, right, Bob Kuhn and Harvey Schafler, buyer of sneakers and boots. Fresh styles reflecting every important new footwear trend are constantly fed to the departments operated by Meldisco, reaching women as quickly as through any conventional popular-price store. Meldisco customers may shade their requirements for service and atmosphere—but not for fashion validity. The long-term trend in styling and quality is up.

Meldisco subsidiaries enjoy a significant competitive advantage in procuring men's shoes, most of which are made to their specifications by the McElwain division—an advantage quickly passed to the customer in styling, quality and value. Men's shoe buyer William Harris, right, and children's shoe buyer Morris Saltiel, left, examine shoes in process with Dick Burns of the McElwain sales staff on one of their frequent factory trips.

SPRING PREVIEW
SHOES
$6

There is nothing anonymous about department merchandise. Nationally known brands are frequently featured; Meldisco brand names are actively promoted within the department. Advertising manager Earl Bayer outlines a Corfam promotion, scheduled for Spring of 1966, to district manager Roman Marinin.

FROSTEE BOOTS

Aggressive, often strident advertising is indispensable to promotional department stores. Meldisco subsidiaries go the distance, always under the banner of the host store, and add many other devices to department operations: 15-minute price specials announced over the store loudspeaker; celebrity personal appearances; promotional merchandise tables at the front of the store. Tremendous consumer-attracting promotional values—"bombs"—are the feature of this type of advertising.

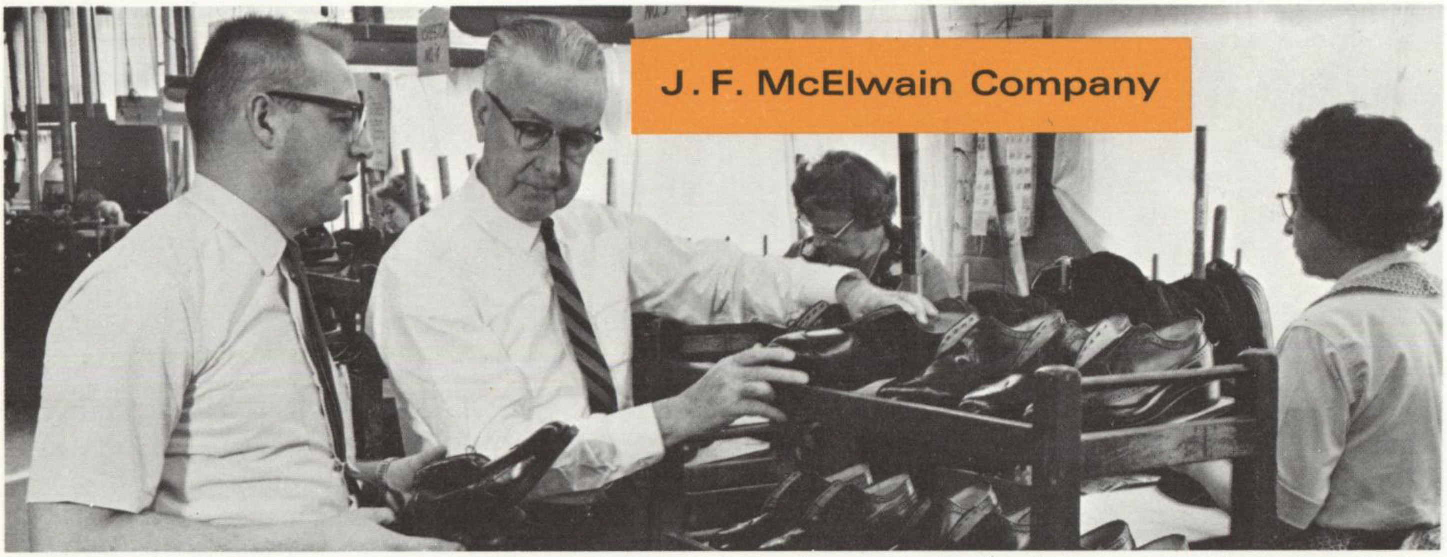
Children's shoe buyer Morris Saltiel checks his merchandise at the point of sale; Meldisco maintains strict standards of value and style. Store staffs are trained to provide full fitting service to young customers, even when parents don't expect it. Self-service continues for adults, but friendly and courteous assistance is increasingly important as promotional department stores and their customers grade up.

Sales training and sales promotions are very much a part of Meldisco operations. This sales meeting is attended by district supervisors; leading the discussion are (left to right) regional director Vincent Romanski, Bob Kuhn, Jack Entel, and regional director Milton Goldstein.

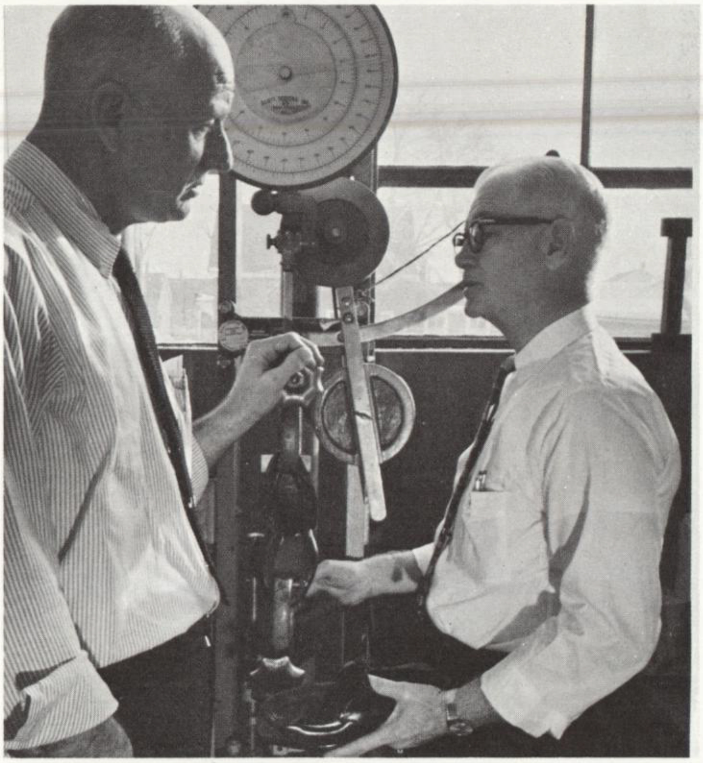
Meldisco shares Miles data processing facilities. Sales information is contained on perforated tags removed from each item at the time of sale and mailed to New York. Sales and perpetual inventory controls are maintained by computer for each department, an invaluable asset to buying and merchandising in this fast-paced operation. Merchandise coordinator Kenneth Weissberg (left) and Irwin Brendler flank the machine that reads the tags onto tape for computer processing.

Slipper and sandal buyer John Haas believes in first-hand market research. Easily self-fitted, highly styled, stocked in tremendous variety and available in wide-open display, slippers and sandals account for a substantial part of Meldisco volume.

J. F. McElwain Company

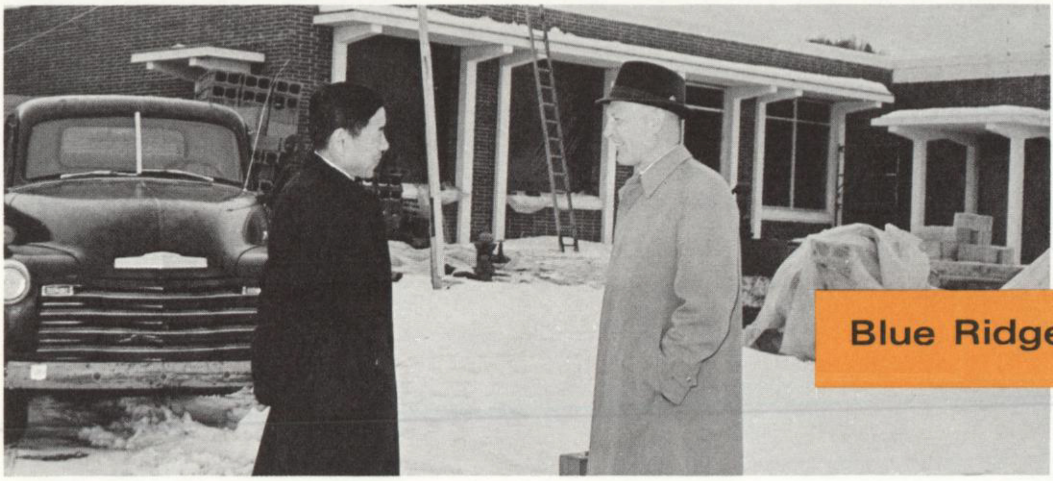


Quality control is technology—and a frame of mind. Either way, McElwain devotion is constant. Below, manufacturing vice president Donald W. Erion, left, and product development manager Ray Reilly run their own check of cemented-sole adhesion on a Scott tester; the same test is conducted weekly on random shoes by adhesive specialists. Above, vice president James M. Mackay, schooled by a long lifetime of fine shoemaking, inspects Bootmasters with Joseph Piotrowski, graduate engineer and youthful superintendent of C factory.

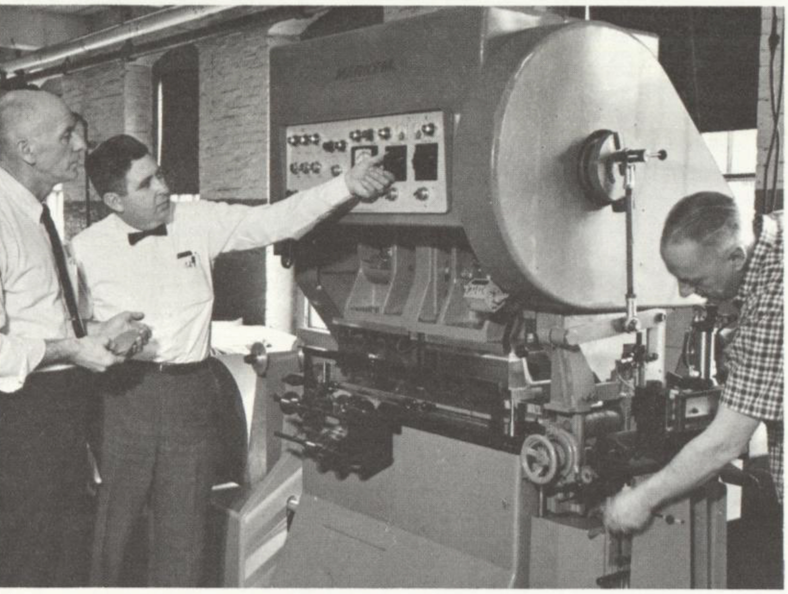


The J. F. McElwain Company division, which produces most of the men's and boys' shoes sold by Melville and its subsidiaries, also plays a vital role in styling the Thom McAn line. At least once a week merchandise manager Jack Chilson, left, visits the Nashua, N. H., offices of McElwain to consult stylist Gordon Wilson and purchasing vice president Frederic E. Shaw, right. The subject this time is ''handsewns''—an always strong category that virtually exploded in the Fall and will be featured in Thom McAn's 1966 pre-Easter teenage radio promotion. Thom McAn Regimental Handsewns are distinguished by handsome and unique striped linings.

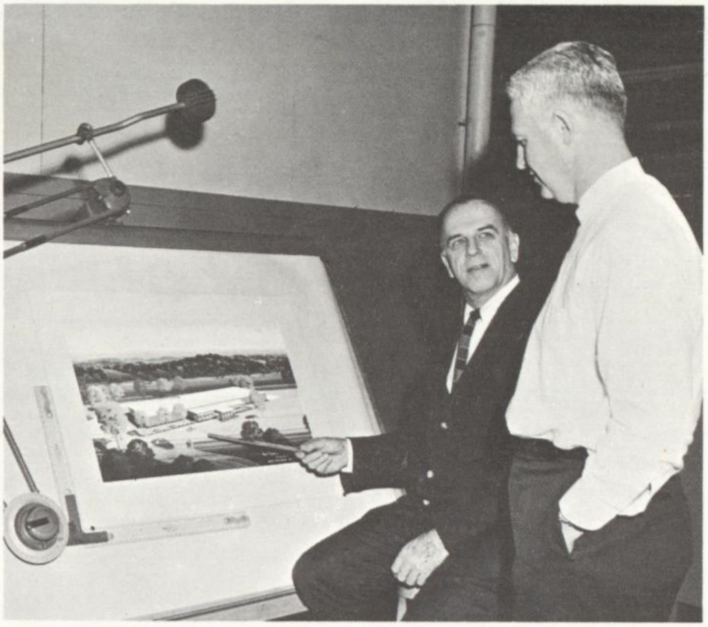
Blue Ridge Shoe Company



The Blue Ridge Shoe Company division opened its third and fourth factories in the Fall. General Manager John DeWitt, accompanied by architect Aijo Tashiro, checks on construction of the office area at the new plant in Mountain City, Tenn., already producing children's shoes. The new factory in Sparta, N.C., is producing handsewn styles to help meet the great current demand for such shoes.



The rate of technological change in the shoe industry is accelerating—rapidly—with the McElwain division at the forefront. Don Erion and chief industrial engineer Wilson Leatherman test a new machine that automatically stamps out and embosses the decorative heel pods used in most men's shoes; it may prove "over-engineered" for the job.



McElwain planning for the future—product, people, and facilities—must anticipate the rapid expansion of the retail divisions. President Francis H. Gleason, seated, and Richard E. West, executive vice president and general manager, never get very far from the drawing board. Four new plants have been opened in the past five years; there are now eight factories in New Hampshire, one in Massachusetts, and four Blue Ridge Division plants in the south.

Manufacturing-retail coordination, a determinant of Thom McAn success since the chain was launched in 1922, takes on a new dimension with the arrival of computer capabilities. Under development, for example, is a method of "exploding" each new Thom McAn shoe purchase into the complete materiel requirements of the factories, with major savings expected in planning manhours and raw material procurement. Considering the future are Larry McGourty, production planning manager John Lafazanis, Dick Nedder, and McElwain controller A. Byron Mansfield.

McElwain's continuing management development program concentrated during the Fall on an 18-week study project in value analysis and value engineering, conducted by Northeastern University. Dean Albert Everett of the university's Center for Continuing Education congratulates G. Donald Devereux, production coordinator, at the final session. The program has already resulted in the consolidation of three purchasing divisions, with significant savings; a major proposal on new product engineering is under consideration. Dick West is the man looking on.

Young management and most modern engineering improvements mark the division plants. James Day manages the Wilkesboro, N.C., factory. He stands at the console of the transporter system which simplifies and speeds the flow of work through the stitching room, seen in the second photo. Here the parts of the shoe upper are joined. Blue Ridge production rates and product quality have been gratifying; further expansion lies ahead.

Shoes for a Nation

Stores of Melville Shoe Corporation and subsidiary companies as of December 31, 1965

THOM McAN—828 stores in 487 Cities in 42 States, District of Columbia and Commonwealth of Puerto Rico (Leased Department*, Agency**)

MILES SHOES— 295 stores in 173 Cities in 14 States and the District of Columbia

MELDISCO—151 departments in 125 Cities in 30 States and Puerto Rico

MELCREST—1 store—Rochester, N.Y.

Thom McAn STORES ○

ALABAMA (9)
Birmingham (2)
Florence
Huntsville
Mobile (2)
Montgomery (2)
Prichard

ARIZONA (8)
Mesa
Phoenix (5)
Tucson (2)

CALIFORNIA (63)
Alameda
Alhambra
Buena Park
Burbank
Canoga Park
Compton
Corte Madera
Costa Mesa
Daly City
East Los Angeles
El Cajon
Fontana
Fullerton
Gardena
Garden Grove
Glendale
Hawthorne
Hayward
Hollywood
Huntington Park
Lakewood
Long Beach (2)
Los Angeles (4)
Modesto
Mountain View
Napa
National City
North Hollywood
Norwalk
Oakland
Palo Alto
Pasadena
Pomona
Redwood City
Reseda
Richmond
Riverside
Sacramento (3)
San Bernardino
San Diego (3)
San Francisco (2)
San Jose (2)
San Leandro
San Mateo
Santa Ana
Santa Barbara
Santa Monica
Torrance
Van Nuys (2)
Ventura
West Covina
Whittier

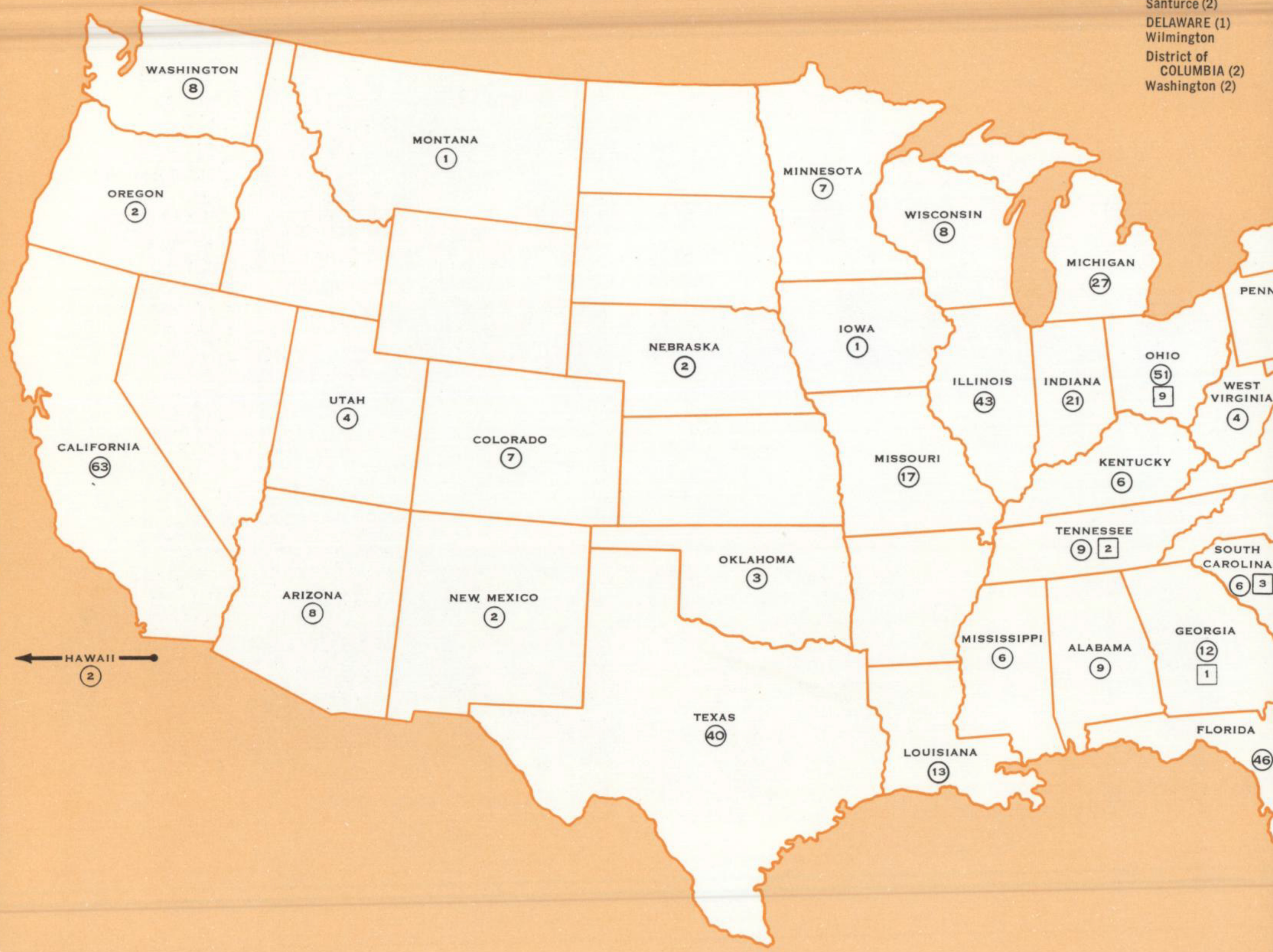
COLORADO (7)
Colorado Springs
Denver (4)
Lakewood
Westminster

CONNECTICUT (17)
Bridgeport
Derby
East Hartford
Hamden
Hartford
Meriden
Middletown
Milford
New Britain
New Haven
New London
South Manchester
South Norwalk
Stamford
Trumbull
Waterbury (2)

Commonwealth of
PUERTO
RICO (13)
Arecibo
Bayamon
Caguas
Carolina
Ponce (3)
Rio Piedras (3)
San Juan
Santurce (2)

DELAWARE (1)
Wilmington

District of
COLUMBIA (2)
Washington (2)

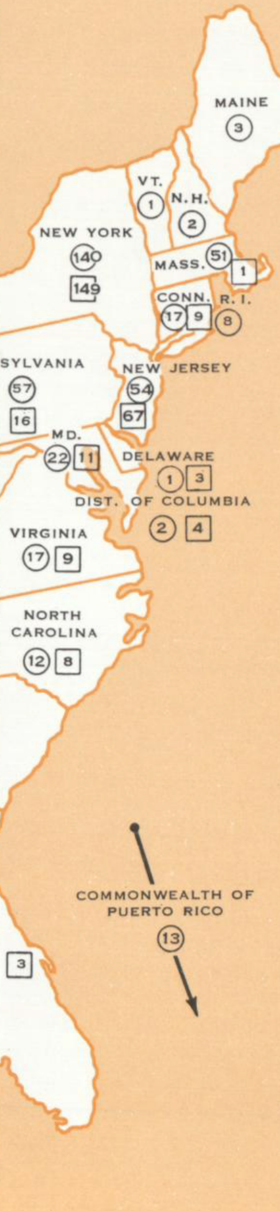

WASHINGTON
8
MONTANA
1
OREGON
2
MINNESOTA
7
WISCONSIN
8
MICHIGAN
27
PENN
IOWA
1
NEBRASKA
2
ILLINOIS
43
INDIANA
21
OHIO
51
9
WEST VIRGINIA
4
UTAH
4
CALIFORNIA
63
COLORADO
7
MISSOURI
17
KENTUCKY
6
TENNESSEE
9
2
SOUTH CAROLINA
6
3
OKLAHOMA
3
ARIZONA
8
NEW MEXICO
2
MISSISSIPPI
6
ALABAMA
9
GEORGIA
12
1
HAWAII
2
TEXAS
40
LOUISIANA
13
FLORIDA
46

FLORIDA (46)
- Bradenton
- Coral Gables
- Daytona
- Fort Lauderdale (3)
- Fort Myers
- Fort Pierce
- Gainesville
- Hialeah
- Hollywood
- Homestead
- Jacksonville (5)
- Key West
- Lakeland (2)
- Largo
- Melbourne
- Miami (8)
- Miami Beach
- Orlando (2)
- Panama City
- Pensacola (2)
- Sarasota
- St. Petersburg (2)
- Tallahassee (2)
- Tampa (3)
- West Palm Beach
- Winter Haven

GEORGIA (12)
- Albany
- Augusta (2)
- Atlanta (2)
- Columbus (2)
- East Point
- Macon
- Marietta
- Rome
- Savannah

HAWAII (2)
- Honolulu (2)

ILLINOIS (43)
- Berwyn
- Bloomington
- Chicago (22)
- Chicago Heights
- Decatur
- Glen Ellyn
- Harvey
- Hillside
- Joliet
- Kankakee
- Moline
- Morton Grove
- Mt. Prospect
- Norridge
- Peoria
- Quincy
- Rockford
- Rock Island
- Springfield (2)
- Villa Park
- Waukegan



INDIANA (21)
- Anderson
- Elkhart
- Evansville
- Fort Wayne (2)
- Gary (2)
- Hammond (2)
- Indianapolis (6)
- Lafayette
- Mishawaka
- Muncie
- Richmond
- South Bend
- Logansport

IOWA (1)
- Davenport

KENTUCKY (6)
- Covington
- Lexington
- Louisville (2)
- Owensboro
- Paducah

LOUISIANA (13)
- Baton Rouge (3)
- Gretna
- Lake Charles (2)
- Metairie (2)
- New Orleans (4)
- Shreveport

MAINE (3)
- Lewiston
- Portland (2)

MARYLAND (22)
- Baltimore (11)
- Carney
- Cumberland
- Forestville
- Frederick
- Glen Burnie (2)
- Hagerstown (2)
- Hyattsville
- Pikesville
- Rockville

MASS. (51)
- Boston (11)
  - Allston
  - Boston (2)
  - Dorchester (2)
  - East Boston
  - Hyde Park
  - Roslindale (2)
  - Roxbury
  - South Boston
- Brockton (2)
- Cambridge (2)
- Chelsea
- Everett
- Fall River (2)
- Fitchburg
- Framingham
- Haverhill
- Hingham
- Holyoke
- Lawrence
- Lowell
- Lynn
- Malden
- Medford (2)
- Natick
- New Bedford
- Norwood**
- Peabody
- Pittsfield
- Quincy (2)
- Revere
- Salem
- Saugus
- Shrewsbury
- Somerville
- Springfield (3)
- Stoneham
- Waltham
- Woburn
- Worcester (3)

MICHIGAN (27)
- Dearborn
- Detroit (6)
- East Detroit
- Ferndale
- Flint (2)
- Inkster
- Jackson
- Kalamazoo
- Lansing (2)
- Livonia (2)
- Monroe
- Muskegon
- Pontiac
- Port Huron
- Roseville
- Saginaw
- Warren
- Wayne
- Wyandotte

MINNESOTA (7)
- Bloomington
- Crystal
- Minneapolis (2)
- St. Paul (3)

MISSISSIPPI (6)
- Biloxi*
- Hattiesburg
- Jackson
- Meridian
- Natchez
- Vicksburg

MISSOURI (17)
- Florissant
- Grandview
- Jennings
- Kansas City (2)
- Kirkwood
- Maplewood
- Mehlville
- St. Ann
- St. Joseph (2)
- St. Louis (6)

MONTANA (1)
- Great Falls

NEBRASKA (2)
- Omaha (2)

N. HAMP. (2)
- Manchester
- Portsmouth

NEW JERSEY (54)
- Asbury Park
- Atlantic City
- Bayonne
- Bergenfield
- Bloomfield
- Camden
- Clifton
- Dover
- East Brunswick
- Elizabeth
- Fords
- Hackensack (2)
- Harrison
- Hazlet
- Hoboken
- Irvington
- Jersey City (4)
- Linden
- Maple Shade
- Metuchen
- Middleton
- Moorestown
- Morristown
- Mt. Ephraim
- Neptune
- Newark (4)
- New Brunswick
- North Arlington
- North Bergen
- Paramus (3)
- Passaic
- Paterson
- Perth Amboy
- Plainfield
- Ramsey
- Red Bank
- Somerville
- Trenton
- Union (2)
- Union City
- Watchung
- Wayne
- West New York
- West Orange

NEW MEXICO (2)
- Albuquerque (2)

NEW YORK (140)
- Albany (2)
- Amherst
- Babylon
- Bay Shore (2)
- Binghamton
- Buffalo (3)
- Cheektowaga
- Clarence
- Commack
- Dewitt
- Freeport
- Glens Falls
- Hempstead
- Hicksville
- Huntington (2)
- Ithaca
- Jamestown
- Kingston
- Lake Success
- Levittown
- Lynbrook
- Manhasset
- Massapequa Park
- Massena
- Mount Vernon
- Nanuet
- Newburgh (2)
- New Hartford
- New Rochelle
- New York (81)
  - Manhattan (17)
  - Bronx (16)
  - Brooklyn (26)
  - Queens (19)
  - Richmond (3)
- Niagara Falls (2)
- Patchogue
- Peekskill (2)
- Plainview
- Port Chester
- Poughkeepsie (2)
- Riverhead
- Rochester (2)
- Rockville Centre
- Roosevelt Field
- Schenectady
- Syracuse
- Tonawanda
- Troy
- Utica (2)
- Valley Stream
- White Plains
- Yonkers (2)

N. CAROLINA (12)
- Asheville
- Charlotte (3)
- Durham
- Greensboro
- High Point
- Jacksonville
- Raleigh
- Wilmington
- Winston-Salem (2)

OHIO (51)
- Akron
- Alliance
- Barberton
- Canton (2)
- Cincinnati (2)
- Cleveland (10)
- Cleveland Heights
- Columbus (6)
- Cuyahoga Falls
- Euclid
- Fairborn
- Hamilton (2)
- Lorain (2)
- Lyndhurst
- Mansfield (2)
- Maple Heights
- North College Hill
- North Olmsted
- Norwood
- Parma Heights
- Portsmouth
- Sandusky
- Springfield
- Steubenville
- Tallmadge
- Toledo (3)
- Warren (2)
- Youngstown (2)

OKLAHOMA (3)
- Midwest City
- Oklahoma City
- Tulsa

OREGON (2)
- Portland (2)

PENN. (57)
- Allentown
- Altoona
- Baden
- Beaver Falls
- Braddock
- Bridgeville
- Cheltenham
- Chester
- Erie (2)
- Greensburg (2)
- Hazleton
- Homestead
- Johnstown
- Langhorne
- Levittown
- McKeesport (2)
- Monroeville
- Natrona Heights
- Newcastle
- New Kensington
- Philadelphia (16)
- Pittsburgh (6)
- Pottsville
- Reading
- Scranton
- Sharon
- Shillington
- Springfield
- Uniontown
- Upper Darby
- Wilkes-Barre
- Woodlyn
- York (2)

RHODE ISLAND (8)
- Newport
- Pawtucket (2)
- Providence (2)
- Westerly
- West Warwick
- Woonsocket

S. CAROLINA (6)
- Charleston
- Charleston Heights
- Columbia
- Greenville
- Spartanburg (2)

TENNESSEE (9)
- Chattanooga (2)
- Johnson City
- Knoxville
- Madison
- Memphis (4)

TEXAS (40)
- Abilene
- Austin (2)
- Beaumont
- Brownsville
- Corpus Christi (3)
- Dallas (5)
- El Paso (3)
- Fort Worth (2)
- Galveston
- Houston (9)
- Laredo
- McAllen
- Pasadena
- Port Arthur
- San Antonio (6)
- Victoria
- Waco

UTAH (4)
- Ogden
- Provo
- Salt Lake City (2)

VERMONT (1)
- Burlington

VIRGINIA (17)
- Alexandria (2)
- Annandale
- Falls Church
- Lynchburg
- Newport News
- Norfolk (4)
- Portsmouth
- Richmond (4)
- Roanoke
- Warwick

WASHINGTON (8)
- Everett
- Seattle (3)
- Spokane (3)
- Tacoma

W. VIRGINIA (4)
- Charleston
- Huntington
- Parkersburg
- Wheeling

WISCONSIN (8)
- Appleton
- Madison
- Milwaukee (4)
- Oshkosh
- West Allis

Miles

STORES ☐

CONNECTICUT (9)
- Bridgeport
- Hamden
- Meriden
- Milford
- South Norwalk
- Stamford
- Trumbull
- Waterbury
- West Hartford

DELAWARE (3)
- Newark
- Wilmington (2)

District of COLUMBIA (4)
- Washington (4)

FLORIDA (3)
- Coral Gables
- Jacksonville
- Orlando

GEORGIA (1)
- Marietta

MARYLAND (11)
- Baltimore (3)
- District Heights
- Dundalk
- Essex
- Glen Burnie
- Hyattsville
- Laurel
- Rockville
- Wheaton

MASS. (1)
- Pittsfield

NEW JERSEY (67)
- Asbury Park
- Audubon
- Bayonne
- Belleville
- Bergenfield
- Bloomfield
- Camden
- Clifton (2)
- East Paterson
- Eatontown
- Edison Township
- Elizabeth
- Englewood
- Fairlawn
- Freehold
- Hackensack
- Hamilton Township
- Hoboken
- Irvington
- Jersey City (7)
- Levittown
- Linden
- Long Branch
- Moorestown
- Morristown
- Newark (5)
- New Brunswick
- North Brunswick
- Orange
- Paramus (2)
- Passaic
- Paterson
- Pennsauken
- Perth Amboy
- Phillipsburg
- Plainfield
- Pompton Lakes
- Raritan Township
- Rahway
- Ramsey
- Red Bank
- Somerville
- South River
- Springfield
- Toms River
- Trenton (2)
- Union
- Union City
- Verona
- Vineland
- Watchung
- West New York
- West Orange
- Westwood

NEW YORK (149)
- Albany (3)
- Amherst
- Amsterdam
- Babylon
- Bethpage
- Centereach
- Commack
- Delmar
- East Huntington
- East Syracuse
- Eggertsville
- Elmira
- Franklin Square
- Freeport
- Glen Cove
- Glens Falls
- Gloversville
- Greenburgh
- Great Neck
- Hempstead
- Hicksville (2)
- Huntington
- Kingston
- Lake Success
- Latham
- Levittown (2)
- Massapequa
- Middletown
- Mount Vernon
- Newburgh
- New Cassel
- New Hyde Park
- New Rochelle
- New York (91)
  - Manhattan (22)
  - Bronx (16)
  - Brooklyn (28)
  - Queens (23)
  - Richmond (2)
- Niagara Falls
- Patchogue (2)
- Peekskill
- Port Chester
- Poughkeepsie (2)
- Riverhead
- Rochester (2)
- Roosevelt Field
- Schenectady
- Troy
- Utica
- Valley Stream
- Wantagh
- West Islip
- West Seneca
- White Plains
- Yonkers (2)

N. CAROLINA (8)
- Asheville
- Charlotte (2)
- Durham
- Greensboro
- Hickory
- Wilson
- Winston-Salem

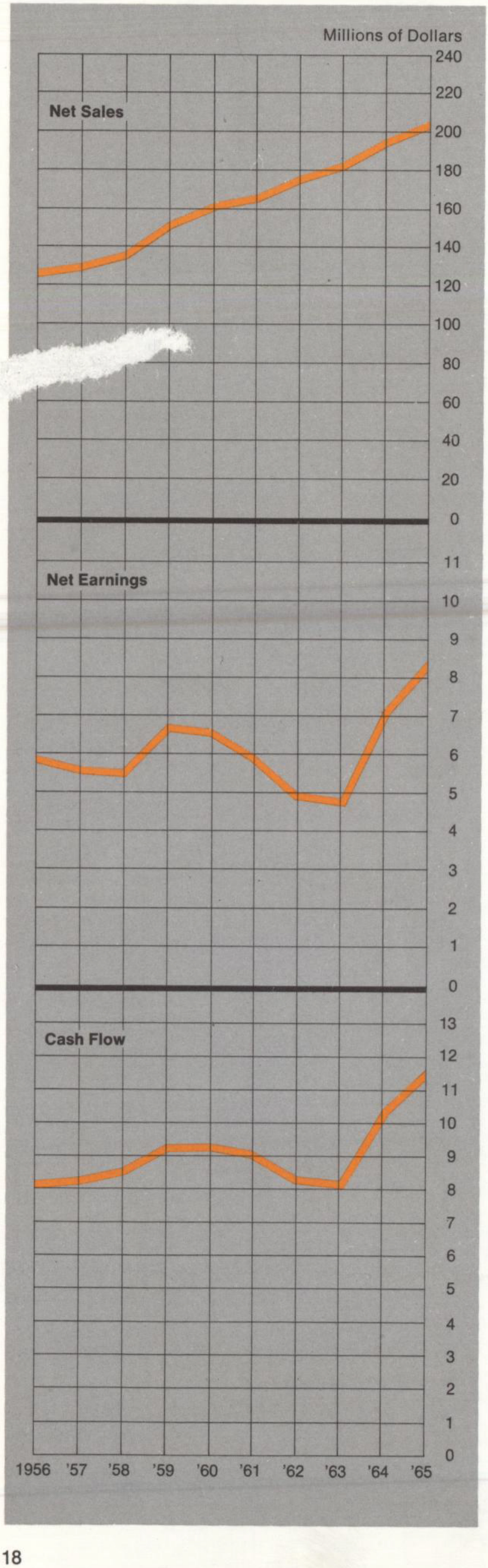
OHIO (9)
- Cleveland (2)
- Euclid
- Maple Heights
- Medina
- Parma (2)
- University Heights
- Willowick

PENN. (16)
- Bethlehem
- Broomal
- Easton
- Erie
- Harrisburg
- Havertown
- King of Prussia
- Meadville
- Norristown
- Philadelphia
- Pottsville
- Scranton (2)
- Wilkes-Barre
- Williamsport
- York

S. CAROLINA (3)
- Columbia
- Florence
- Greenville

TENNESSEE (2)
- Chattanooga (2)

VIRGINIA (9)
- Alexandria
- Charlottesville
- Clarendon
- Danville
- Falls Church
- Harrisonburg
- Lynchburg
- Roanoke
- Springfield



FINANCIAL REVIEW

Earnings

The net earnings for the year 1965 were the highest in the company's history amounting to $8,418,237, or $2.84 per share compared with $7,110,962, or $2.35 per share, an increase in per share earnings of 20.9%.

Dividends

The company paid a dividend on common stock of $1.00 per share during the year 1965. In January 1966, the quarterly dividend on common stock was increased from $.25 to $.31¼ per share, increasing the dividend to an annual rate of $1.25.

Sales

Net sales increased by 4.3% to $203,545,124 for the year 1965 over the previous year's sales of $195,170,712.

Property, Plant and Equipment

Capital expenditures for the year 1965 amounted to $4,970,517, which was $2,924,166 more than the $2,046,351 expended in 1964. Depreciation charged for the year 1965 was $3,147,900 as compared to $3,272,223 for the year 1964.

Cash Flow

Earnings on a cash flow basis, net earnings plus depreciation, amounted to $3.97 per share for the year 1965 as compared to $3.53 for the previous year.

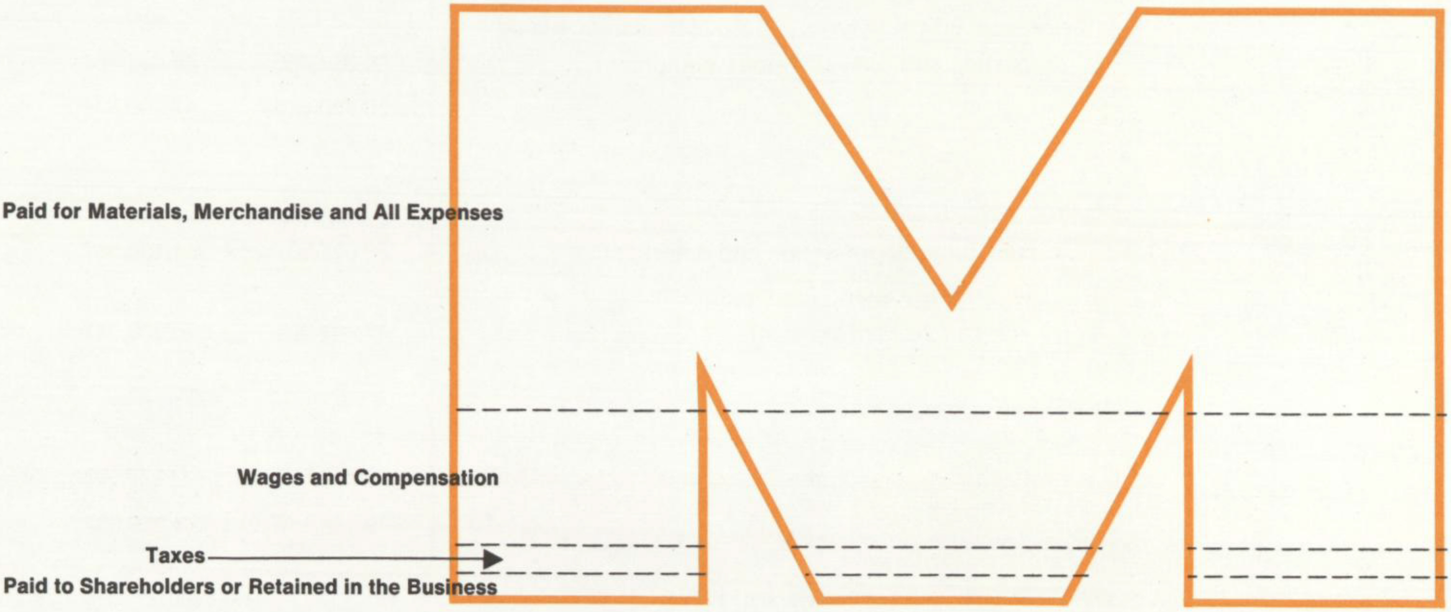
Capital Stock

In January 1965, the Board of Directors voted to call for redemption on March 1, 1965 the outstanding issue of $4.75 Preferred Stock Series A at $100 per share plus accrued dividends. All of these shares were redeemed in 1965.

Distribution of Sales Revenue

	1965	1964
Received from the sale of products	$203,545,124	$195,170,712
Paid for materials, merchandise and all expenses, exclusive of taxes and other amounts paid to or for the benefit of employees	139,138,497	133,692,542
Remainder	64,406,627	61,478,170
This was divided as follows:		
Wages and compensation	46,122,111	44,305,240
Taxes	9,866,279	10,061,968
Paid to shareholders or retained in the business	8,418,237	7,110,962

In 1965 after payment for materials, merchandise, taxes and other necessary expenses, 85% of the balance went to 8,400 employees and 15% was paid to shareholders or retained in the business.



MELVILLE SHOE CORPORATION
and Subsidiary Companies

STATEMENT OF CONSOLIDATED

ASSETS

	1965	1964
Current assets:		
Cash	$18,629,970	$19,604,090
Accounts receivable, less provision for possible losses	2,345,677	1,815,596
Inventories—at lower of cost (14% valued at lifo) or market, principally by the retail method	39,094,013	36,204,725
Prepaid expenses	1,526,065	1,077,266
Total current assets	61,595,725	58,701,677
Property, plant, equipment and leasehold improvements, at cost:		
Land	1,323,398	1,200,587
Buildings	5,340,876	3,942,981
Machinery and equipment	4,341,916	3,991,379
Store and office fixtures, improvements to leased properties and miscellaneous equipment	39,354,486	38,031,987
	50,360,676	47,166,934
Less:		
Accumulated depreciation and amortization	33,011,087	31,136,587
Net property, plant, equipment and leasehold improvements	17,349,589	16,030,347
Unamortized debt discount and expense	212,832	227,508
	$79,158,146	$74,959,532

See accompanying notes to financial statements.

FINANCIAL CONDITION

as of December 31, 1965 with comparative figures for 1964

LIABILITIES

	1965	1964
Current liabilities:		
Accounts payable and accrued expenses	$12,624,803	$11,446,500
Federal income taxes	5,431,950	5,142,671
Current installments on long-term debt	688,000	684,000
Total current liabilities	18,744,753	17,273,171
Long-term debt:		
4⅞% Debentures, due 1980 (annual sinking fund requirement $600,000)	9,600,000	10,200,000
3½% Promissory Note, due 1984, payable in quarterly installments	2,156,000	2,244,000
	11,756,000	12,444,000
Provision for retirement payments, less related Federal income taxes (note 1)	1,436,174	1,491,596
Deferred Federal income taxes, applicable to accelerated depreciation deducted for tax purposes	1,370,488	1,383,127
SHAREHOLDERS' EQUITY		
Capital Stock (notes 2 and 3):		
Preferred stock:		
Series A, $4.75 dividend	—	1,606,800
Series B, $4.00 dividend	11,841,900	13,193,900
Common stock	12,284,194	12,100,481
	24,126,094	26,901,181
Retained earnings	21,866,262	16,728,865
	45,992,356	43,630,046
Less cost of preferred shares held in treasury	141,625	1,262,408
	45,850,731	42,367,638
	$79,158,146	$74,959,532

Commitments (note 4)

STATEMENT OF CONSOLIDATED EARNINGS AND RETAINED EARNINGS

Year ended December 31, 1965 with comparative figures for 1964

	1965	**1964**
Net sales	$203,545,124	$195,170,712
Cost of goods sold, buying and warehousing costs	118,975,373	115,961,147
	84,569,751	79,209,565
Store operating, selling, general and administrative expenses	67,232,720	63,061,265
Depreciation and amortization	3,147,900	3,272,223
Interest charges	647,231	690,074
	71,027,851	67,023,562
	13,541,900	12,186,003
Other income—net	126,337	150,959
Earnings before Federal income taxes	13,668,237	12,336,962
Provision for Federal income taxes	5,250,000	5,226,000
Net earnings	8,418,237	7,110,962
Retained earnings at beginning of year	16,728,865	12,397,054
	25,147,102	19,508,016
Deduct cash dividends paid (note 2):		
Preferred stock, Series A, $4.75 a share	17,068	69,260
Preferred stock, Series B, $4.00 a share	473,316	477,526
Common stock, $1.00 a share; 1964 $.80 a share	2,790,456	2,232,365
	3,280,840	2,779,151
Retained earnings at end of year	$ 21,866,262	$ 16,728,865

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

1. Retirement Plan

During the year, the company adopted a policy of funding the retirement plan covering certain factory employees. In that connection, the remainder of the amount provided for retirement payments prior to adoption of funding, aggregating $1,480,000 at December 31, 1965, is being amortized at an annual rate of approximately $125,000 as a reduction of annual provisions for funding past service costs which aggregate approximately $6,600,000. The aggregate charge to expense for the year 1965 for all pension plans amounted to $503,751.

2. Capital Stock

The Series A cumulative preferred stock of $100 par value aggregating 14,373 shares outstanding at the beginning of the year were redeemed at par on March 1, 1965 and are carried as authorized but unissued shares; 1,695 cancelled Series A shares held in treasury at the beginning of the year were eliminated from authorized shares by amendment to the certificate of incorporation.

During the year, 2,410 shares of Series B cumulative preferred stock of $100 par value were purchased at an aggregate cost of $217,000 and cancelled; 830 of such shares together with the 12,690 cancelled shares of Series B held in treasury at the beginning of the year were also eliminated from authorized shares by amendment to the certificate of incorporation. Accordingly, at December 31, 1965 there were 118,419 shares of Series B cumulative preferred stock (including 1,580 shares held in treasury) authorized and issued; such shares are redeemable at the option of the company at $101 to December 1, 1966 and $100 thereafter. At December 31, 1965, 103,350 shares of cumulative preferred stock of $100 par value were authorized but unissued.

Authorized common stock consists of 3,500,000 shares of $1 par value, of which 2,790,458 shares are issued and outstanding. Common stock includes additional capital amounting to $9,066,897 which arose from conversion of 4% preferred shares into shares of common stock prior to redemption of the 4% preferred shares in February 1950 and is included in common stock capital in accordance with statutory requirements. Capital surplus of $243,126 at beginning of year, plus $183,713 arising from purchases at less than par value of preferred stock, is also included in the common stock account.

3. Stock Options

Under a stock option plan adopted in 1964, options have been granted to key managerial employees at fair market value on date of grant as follows: 40,000 shares at $19.875 per share on April 14, 1964 and 8,500 shares at $23.25 per share on January 7, 1965. Under the plan, options may be granted for the purchase of an additional 51,500 shares to February 24, 1974 at not less than 100% of fair market value at dato of grant. The right to exercise such options commences two years from the date of the grant and expires five years after such date. An option granted prior to the foregoing plan for the purchase of 10,000 shares of common stock at $31.375 was outstanding at December 31, 1965; such option expires on March 31, 1966. The Board of Directors has adopted a general policy of purchasing in the open market shares to be delivered upon exercise of options granted pursuant to the stock option plan.

4. Commitments

Total minimum annual rentals payable under leases amounted to approximately $12,500,000 at December 31, 1965. Such leases will expire on various dates to 1988; however it is anticipated that as leases expire they will be renewed or new leases will be executed. Rent expense for the year 1965 amounted to approximately $14,600,000.

Accountants' Report

To the Board of Directors and Shareholders
MELVILLE SHOE CORPORATION:

We have examined the statement of consolidated financial condition of Melville Shoe Corporation and subsidiary companies as of December 31, 1965 and the related statement of consolidated earnings and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying statement of consolidated financial condition and statement of consolidated earnings and retained earnings present fairly the financial position of Melville Shoe Corporation and subsidiary companies at December 31, 1965 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & CO.
Certified Public Accountants

New York, New York
February 23, 1966

MELVILLE SHOE CORPORATION
and Subsidiary Companies

TEN-YEAR FINANCIAL REVIEW

	1965	1964	1963	1962
Results for the Year				
Net Sales	$203,545,124	$195,170,712	$182,403,253	$176,447,649
Wages and Compensation	46,122,111	44,305,240	41,767,766	41,648,202
Taxes—All	9,866,279	10,061,968	8,191,817	8,616,967
Earnings Before Federal Income Taxes	13,668,237	12,336,962	8,462,257	9,150,371
Net Earnings	8,418,237	7,110,962	4,814,257	4,987,371
Dividends Paid	3,280,840	2,779,151	4,196,129	5,049,604
Per Share Results of Common Stock				
Net Earnings	$ 2.84	$ 2.35	$ 1.52	$ 1.58
Dividends	1.00	.80	1.30	1.60
Taxes—All	3.54	3.61	2.94	3.09
Book Value	12.24	10.33	8.78	8.56
End of Year Position				
Current Assets	$ 61,595,725	$ 58,701,677	$ 49,782,484	$ 50,246,808
Current Liabilities	18,744,753	17,273,171	13,694,338	15,528,678
Current Ratio	3.30	3.40	3.64	3.24
Property, Plant & Equipment				
At Cost	$ 50,360,676	$ 47,166,934	$ 47,316,850	$ 47,100,464
Net After Accumulated Depreciation	17,349,589	16,030,347	17,927,181	19,441,368
Capital Additions	4,970,517	2,046,351	2,356,124	3,328,135
Depreciation	3,147,900	3,272,223	3,308,102	3,346,346
Percent to Net Sales				
Earnings Before Federal Income Taxes	6.72%	6.32%	4.64%	5.19%
Net Earnings	4.14%	3.64%	2.64%	2.83%
Percent Net Earnings to Shareholders' Equity	19.87%	18.52%	12.64%	13.37%
Number of Stores	1,275	1,250	1,244	1,249

1961	1960	1959	1958	1957	1956
$165,867,317	$161,594,237	$151,709,758	$136,436,124	$130,355,538	$126,124,405
39,618,572	40,028,701	36,457,979	35,014,142	34,327,002	32,760,367
8,839,063	8,808,017	8,564,057	7,453,337	7,319,322	7,945,606
11,090,640	11,916,845	12,246,434	10,424,782	10,489,518	11,521,940
5,987,740	6,608,408	6,743,280	5,565,782	5,638,618	5,920,940
5,064,813	4,870,003	4,416,326	4,980,417	5,681,063	5,682,546
$ 1.93	$ 2.15	$ 2.18	$ 1.76	$ 1.78	$ 1.89
1.60	1.52½	1.35	1.55	1.80	1.80
3.17	3.16	3.07	2.67	2.62	2.85
8.17	7.77	7.37	6.72	6.73	6.67
$ 50,431,773	$ 50,114,106	$ 38,286,610	$ 35,252,259	$ 33,383,910	$ 31,698,364
14,494,932	13,496,197	13,484,043	12,260,359	10,858,952	7,368,969
3.48	3.71	2.84	2.88	3.07	4.30
$ 44,694,908	$ 41,599,614	$ 38,441,558	$ 32,210,276	$ 29,609,488	$ 25,923,596
19,637,472	18,229,601	16,538,527	12,256,146	11,735,800	9,778,845
4,610,098	4,409,129	3,688,271	3,548,572	4,715,408	4,066,177
3,073,135	2,713,596	2,527,654	3,082,265	2,677,614	2,156,730
6.69%	7.37%	8.07%	7.64%	8.05%	9.14%
3.61%	4.09%	4.44%	4.08%	4.33%	4.69%
16.01%	18.07%	19.02%	15.99%	16.26%	17.28%
1,212	1,156	1,110	1,053	1,018	947

MELVILLE SHOE CORPORATION and Subsidiary Companies
25 West 43rd Street, New York, N. Y. 10036